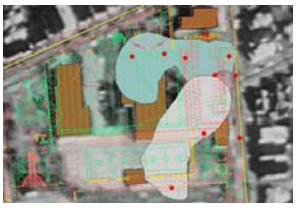


USEPA / Wisconsin DNR Training


Waunakee , WI


Dollars & Sense:

An Insider's Guide for Government Officials on Brownfields Real Estate Development

September 21, 2006

Sponsored by EPA's Office of Land Revitalization

LAND REVITALIZATION
restoring land for America's communities

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Agenda

8:15-8:30 **Overview: Purpose and Goals for Course**

8:30-10:00 **Wisconsin Cases**
Module I: Introduction to Real Estate Development
Real Estate/Environmental Value Pyramid
Reuse Assessment
Development and Remediation Private and Public Sector
Two Perspectives- Shared Terminology, but with Different Meanings
Who is the Real Developer?
Types of Developers/Developments
The Role(s) of the Developer
The Development Team
Introducing the Development Model
Conceiving the Project
Determining Highest and Best Use
The Reuse Assessment
Market Analysis

10:00-10:15 **Break**

10:15-11:45 **Module II: Making Deals Work**
Feasibility Evaluation and Due Diligence
Back of the Envelope Feasibility
Fatal Flaw Analysis
Real Estate Finance Basics
Value and Cap Rates
Determining Reuse
Case Study: Cleveland
Case Study: Sarasota
The Nuts and Bolts of Real Estate
Sarasota: Example of *Pro Forma*
Leverage Revisited
Capitalization Revisited
Financing Phases
Sources of Financing
What Will the Project be Worth?
Pro Forma Analysis
Sarasota: What if All the Bad Things Happen?

11:45-12:00 **Group Exercise**

12:00-1:00 **Lunch**

1:00-1:15 **Group Exercise**

1:15-3:00 **Module III: Putting the Deal Together**
Refinement of the Idea
Re-positioning
Government Incentives
Fatal Flaw analysis
Structuring the deal
Contract Negotiation -Example
Clearing Title/Controlling Sites

Addressing Liability Protection
Contractual/Private Mechanisms
Environmental Insurance
Formal Commitment
Single site vs. portfolio
Reuse options for small sites
Clusters
Cluster example—Oklahoma
Construction: Is the Redevelopment the Remediation?
Completion and Formal Opening
Property, Asset and Portfolio Management
Cashing Out

3:00-3:15 **Break**

3:15-4:00 **Module IV: Real Cases: What Can You Do? Discussion**
Wisconsin Cases
Outreach and Stakeholder Involvement
What EPA Can Do
Working With Public Development Entities
Economic Benefits and Environmental Benefits

4:00 **Adjourn**

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Redevelopment for Remediators

- Course Goals
  - To provide DNR, municipal staff, and other brownfield stakeholders with knowledge of the following:
    - Basic real estate principles
    - The redevelopment process
    - How to work effectively with real estate developers
    - How USEPA and Wisconsin environmental programs impact the real estate development process.

Case Study #1

Small City (pop. 8500)
Northern Wisconsin

Past Uses

- Late 1800's – Blacksmith Shop
- 1920-1990 – Implement Dealership
- 1990-1992 – Repair/Maintenance Shop
- 1992- 2002 – Implement Dealership
- 2003-2006 – Vacant
- 1995 Contamination found on site

Current Situation

- 3 Abandoned Properties on Main St. (1.1 acres total)
- Tax Delinquent
- City wants Commercial Redevelopment
- Known Contamination on Site (1995)
- Current Buildings Blighted
- Recent SAG Grant to City
- No Interested Developers

Case Study #2

Small Village (pop. 1100)
West Central Wisconsin


2003 12 5


2003 12 5

Past Uses

- Former Feed Mill
- Former Gas Station (burned 1970)
- Currently used for cold storage
- Suspected contamination and hazards on site

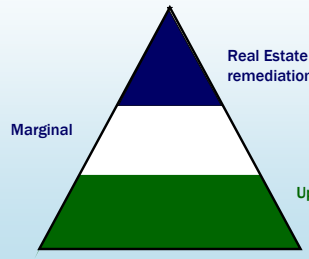
Current Situation

- Under Utilized Property on Main St. (0.68 acre)
- Current Buildings Blighted and Hazardous
- Suspected Contamination on Site
- Private Owner willing to sell, won't allow access
- City wants Redevelopment or Park
- No Interested Developers – Liability Concerns

Module I

The Intersection of Real Estate Development and Environmentally-Challenged Sites

Real Estate/Environmental Value Pyramid

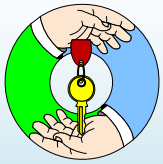


Two Perspectives

- Different perspectives on same property
- Shared terminology; different meanings
  - Risk
  - Due Diligence
  - Time
- Need to communicate effectively

How to Determine the Real Developer?

- Developer Adds Value
  - Equity:
    - must have money at risk
  - Ownership:
    - must have control of site
  - Financing:
    - must have financial capability to complete project
  - Tenant/User:
    - must have tenant or capacity to attract tenant/user



Types of Developers/Developments

- **Land**
  Lefrak Organization
  (owner of the Newport, NJ site across from downtown Manhattan… they have been building a 2nd downtown on NJ side of the Hudson River for the last 15 years)
- **Vertical**
  Mack-Cali
  (vertical development of office)
- **Rehabilitation**
  Edison Properties
  (rehabilitation of office properties)

Types of Developers/Developments

- **Residential**
  - K. Hovnanian
  - Toll Brothers
- **Retail**
  - Mills Corporation
  - Taubman Centers
  - BGI
- **Office**
  - Mack-Cali
  - Tishman-Speyer
- **Mixed use**
  - Related Companies
  - Avalon Bay
- **Build to suit/ Industrial**
  - Russo Co.

The Role(s) of the Developer

Public Gov/Neighbors

Planner Promoter Negotiator	Analyst Creator Promoter Provider
Borrower Negotiator Promoter	Employer Client Manager

Users

Financial Entities

Development Team

The Development Team

- Standard Development:
  - Engineers, Architect, Appraiser, Market Analyst, Real Estate Brokers, Attorneys, Mortgage Brokers, Tenants/Users, Lenders, Planners, etc.
- Contaminated Property, add:
  - Environmental consultants, attorneys, insurers, community representatives

The Development Model

- Pre-Development
  - Idea, Refinement, Due Diligence
- Securing the Deal
  - Contract Negotiation, Formal Commitment
- Development
  - Construction, Completion and Formal Opening
- Management
  - Property, asset and portfolio management

Regulatory Basis for Integration of Cleanup and Redevelopment

- Land use in the Remedy Selection process- directive 9355.7-04, May 1995

Determining Reuse: A Primer

Property, Environmental, Community, and Financial

Reuse Assessment: Property

- Physical setting
  - Property features
  - Existing buildings and other improvements
  - Property location and land use
  - Infrastructure
- Ownership and Use
  - Current and historical of past uses
  - Ownership
  - Current owner or purchaser preferences and plans

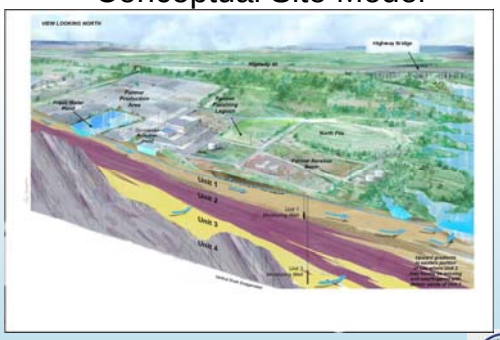
Reuse Assessment: Environmental

- Environmental Setting
  - Current and future groundwater use
  - Ecological issues
  - Flood plain
- Environmental Condition
  - Types and distribution of chemicals of concern
  - Remedial technology constraints
  - Potential restrictions on future use
  - Areas that do not require cleanup
  - Institutional or engineering controls

Reuse Assessment: Community

- Community expectations
- Cultural factors
- Historic factors
- Environmental factors
- Environmental justice issues
- Public Issues and Initiatives

Conceptual Site Model



Reuse Assessment

- Property Characteristics
  - Acreage
  - Topography
  - Existing improvements
  - Infrastructure
  - Zoning
- Physical setting
  - Property features
  - Property location and Access
  - Neighboring land use and municipal development plans
- Ownership and Use
  - Current and historical of past uses
  - Ownership
  - Current owner or purchaser preferences and plans

Identify Potential Constraints

- Evaluate Property Access
  - Indirect
  - Secondary roads

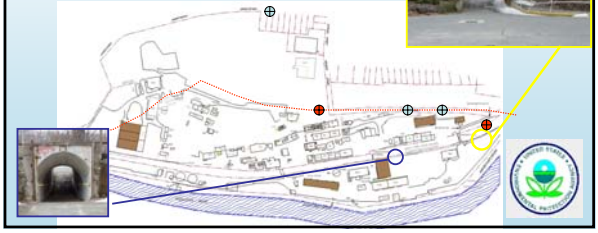
Current Access

Reuse Assessment

- Site Assets and Constraints
  - Property features
    - Topography, natural features
  - Property location and access
    - Relation to highways and traffic patterns
  - Relationship in region
  - Stigma – not just environmental
  - Environmental constraints

Identify Potential Constraints

- Evaluate Current Circulation
  - Municipal truck traffic
  - Access to eastern side



Reuse Assessment

- Economic Synergies
  - Economic trends
    - Growing industries
    - Changing markets
  - Demographic trends
    - Population changes and patterns
  - Opportunities for public/private partnerships
    - Available incentives and programs
  - Real Estate Market

Land Use Matrix

	Property Asset						
	Location	Buildings	Rail	Highway	Water Supply	Available Power	River
Land Use							
Industrial	☆	☆	☆	☆	☆	☆	
Power Generation	☆	☆	☆		☆	☆	
Office / Light industrial	☆	☆		☆		☆	
Commercial Retail	☆			☆			
Recreational	☆	☆		☆			☆
Government / Public	☆	☆		☆	☆		☆
Residential	☆			☆			☆

Develop Land Use Scenarios

Reuse Assessment: Financial

- Property Issues
- Real Estate Tax Issues
- Land and Redevelopment costs
- Local economy
- Financial Responsibility
- Availability of funds for redevelopment

Determining Reuse

Who will actually use this property?

residential
institutional
industrial
mixed use

Market Analysis and Feasibility

- Who will be the end-user
- What price will end-user pay
- The impact of stigma
- Predevelopment marketing
- Build-to-Suit

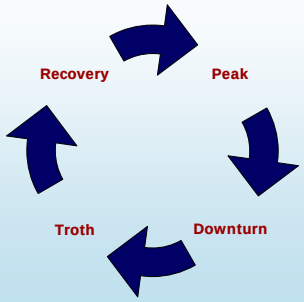
Source: DeLuca, Hoffman & Associates

A conceptual drawing of the future shopping center at the Raymark Industries, Inc., Superfund Site.

Conceiving the Project

- Highest and best use
  - Mixed use/commercial/residential
- Reuse Assessment
  - Developers start with the current planning and zoning
  - Historic use patterns
- Objectionable uses (LULUs)
- Creativity

Real Estate Life Cycle



Real Estate Cycle Status of 25 Largest U.S. Markets

Market	Office	Apartment	Retail	Warehouse	Hotel
Los Angeles	Recovery	Peak	Peak	Recovery	Peak
New York	Peak	Recovery	Peak	Recovery	Peak
Chicago	Recovery	Recovery	Peak	Recovery	Recovery
Northern New Jersey	Recovery	Recovery	Peak	Recovery	Peak
Boston	Recovery	Recovery	Peak	Recovery	Peak
Dallas	Recovery	Recovery	Peak	Recovery	Peak
Washington, D.C.	Recovery	Recovery	Peak	Recovery	Peak
Philadelphia	Recovery	Peak	Peak	Recovery	Recovery
Houston	Trough	Trough	Peak	Peak	Peak
Atlanta	Recovery	Recovery	Recovery	Recovery	Peak
Detroit	Recovery	Recovery	Peak	Recovery	Recovery
Inland Empire	Peak	Downturn	Peak	Peak	Peak
Phoenix	Recovery	Peak	Recovery	Peak	Peak
Seattle	Recovery	Recovery	Peak	Recovery	Peak
Minneapolis	Recovery	Recovery	Trough	Recovery	Peak
Orange County	Peak	Recovery	Recovery	Recovery	Peak
San Diego	Recovery	Recovery	Peak	Recovery	Peak
Long Island	Peak	Recovery	Peak	Recovery	Downturn
St. Louis	Recovery	Recovery	Peak	Recovery	Peak
Baltimore	Recovery	Recovery	Peak	Recovery	Peak
Tampa	Recovery	Recovery	Peak	Recovery	Peak
East Bay	Recovery	Recovery	Peak	Recovery	Recovery
Miami	Recovery	Recovery	Peak	Recovery	Peak
Pittsburgh	Recovery	Recovery	Peak	Recovery	Peak
Denver	Recovery	Downturn	Peak	Recovery	Peak

Source: Fitch Ratings as of October 2004.
Note: Using rent, occupancy and growth information, Fitch identified a specific position in the real estate cycle for each sector in the top 25 U.S. population markets. Cycle status includes actual and forecast data from the four quarters of 2004 and first quarter of 2005.

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Not…

Location,
Location,
Location

… Location, ***Accessibility***, ***Visibility***

How does a Retailer Choose a Location?

7 Step Approach

- Identify Region for Assessment
- Geographic Inventory of Competitors
- Relative Performance of Existing Stores
- Identify Defining Features of Existing Stores
- Assess Market Penetration
- Identify Geographic Markets for Expansion
- Choose New Sites

Beyond Core Demographics

- Market Analysis is more than just Income, Population, Household Size, and Ethnicity
- For retailers in particular, “psychographics” matter

Psychographics

- PRIZM NE Segments
  - American Dreams
  - Bohemian Mix
  - Money & Brains
  - Urban Achievers
  - Young Digerati

Source: Claritas

Young Digerati

Young Digerati are the nation's tech-savvy singles and couples living in fashionable neighborhoods on the urban fringe. Affluent, highly educated and ethnically mixed, Young Digerati communities are typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants and all types of bars – from juice to coffee to microbrew.

- Buy wireless phones
- Own a DVD player
- Read Wall Street Journal
- Listen to National Public Radio
- Drive a Saab

Source: Claritas

Money & Brains

The residents of Money & Brains seem to have it all: high incomes, advanced degrees and sophisticated tastes to match their credentials. Many of these city-dwellers, predominantly white with a high concentration of Asian Americans, are married couples with few children who live in fashionable homes on well maintained lots.

- Shop at Nordstrom
- Support the arts
- Read Business Week
- Listen to all-news radio
- Drive a Jaguar

Source: Claritas

Module II

Real Estate Development:
Making Deals Work

Feasibility – Due Diligence

- Evaluating the potential of a contaminated property
  - Quantifying Risk
  - Will project show sufficient return for the work and risk
  - Can the deal be financed and insured?

"Back of the Envelope" Feasibility – Land Only

- Land Value Clean $ 1,000,000
  - Acquisition Costs $ 300,000
  - Remediation $ 400,000
  - Tax Lien $ 100,000
  - Soft Costs $ 200,000
  - Total $ 1,000,000
- Does it work?

Project Costs:					
	Acquisition, Soft Costs, Hard Costs, Remediation, Carry Costs				
		Total Project Costs of		$100,000	
Net Operating Income (NOI)					
	Gross Income		$14,000		
	Operating Expenses		($4,000)		
	Net Operating Income		$10,000		
Cash on Cash Operating Return					
	NOI/Project Costs	$10,000/$100,000		10%	
Leverage	20% Down (Equity of $20,000), 80% Mortgage ($80,000) at 6%				
	Gross Income		$14,000		
	Expenses		($4,000)		
	Debt Service (Carry)		$4,800		
	Net Cash Flow		$5,200		
Leveraged Return					
	Net Cash Flow/Equity				
	$5,200/$20,000			26%	
Project Value and Capitalization					
	NOI/Cap Rate = Project Sale Value				
	$10,000/.10			$100,000	

Real Estate Finance Basics

- Introduction to Leverage

Finance: Value & Cap Rates

$$\text{Value (V)} = \frac{\text{Net Operating Income (NOI)}}{\text{Capitalization Rate (R)}}$$

$$\$1{,}000{,}000 = \frac{\$120{,}000}{12\ \%}$$

$$\$1{,}500{,}000 = \frac{\$120{,}000}{8\ \%}$$

$$\$\ 857{,}143 = \frac{\$120{,}000}{14\ \%}$$

Finance: Value & Cap Rates

- Rate for typical property types
  - Downtown office 8.5%
  - Suburban Office 9.1%
  - Industrial 8.9%
  - Research & Development 9.2%
  - Apartments 8.5%
  - Full-service Hotel 9.8%
  - Limited-service hotel 11.1%
  - Community Shopping Center 9.1%
  - Regional Mall 8.5%

Example: Cleveland

- Site Location
  - Cleveland, Ohio
  - East Side, within 2 miles of I-90
- Size
  - 57 acres
- Improvements
  - 758,000 – 3 buildings
- Historic Use
  - Manufacturing, warehousing

Example: Cleveland

- Environmental Issues:
  - Lead paint/dust, asbestos
  - Subsurface solvents, metals, some PCBs, hydrocarbons.
  - Asbestos in underground tunnel system

Example: Cleveland

- Site Location

Cleveland, Ohio, East Side, within 2 miles of I-90

- Size & Improvements
  - 57 acres
  - 758,000 – 3 buildings
- Historic Use
  - Manufacturing, warehousing
  - 1 building having small office component
- Environmental Issues
  - Lead paint/dust, asbestos
  - Subsurface solvents, metals, PCB's, hydrocarbons
  - Asbestos in underground tunnel system

Example: Cleveland

- Redevelopment Plan:
  - Newest building rehabbed and leased as warehouse
  - 2nd building sold
  - Largest building: some use as warehouse

Example: Cleveland

- The Strategy:
  - Favorable tax treatment
  - Assistance on remediation
  - Met with neighbors
  - Security
  - Renamed Nottingham Business Park
  - Marketed through broker

Example: Cleveland

Acquisition		
Purchase as is	$500,000	
soft costs (i.e., legal, etc.)	$100,000	600,000
Probable remediation costs		
above ground	$700,000	
below ground	———	700,000
General fix-up costs		
primarily landscaping	$250,000	250,000
Environmental insurance:		
cost of premium	$ 75,000	75,000
total costs before rehab & financing		**$1,625,000**

Example: Cleveland

Rehabbing good building:

$10/sf x 160,000		$1,600,000
$1,600,000		

Carrying costs:

acquisition: 1 yr 7%	42,000	
other: ½ year at 7%	91,875	
leasing comm 5 years at 5%/year	160,000	293,875

Rehabbing and carrying costs **$1,893,875**

Total project costs excluding bldgs 1 & 2: **$3,518,875**

Example: Cleveland

Total value of project excluding bldgs 1 & 2

NOI of building 3:
net rental of $4/sf (160,000 x's $4) = $ 640,000

capital value of noi = $640,000 / cap rate 14% = $ 4,571,429

margin between total costs and total value:
($4,571,429 - $3,518,987) $ 1,052,442

Example: Cleveland

- Baggage In Deal
  - Not unusual to have components that do not work
- Building #1: 440,000 sf
  - Short term NOI of $190,000
  - Remediation costs $350,000
  - Other expenses $200,000
  - Annual carrying costs $200,000
- Building #2: 180,000 sf High bays
  - Sold in Year 4 $750,000
  - Remediation costs $350,000
  - Carrying cost - 4 yrs $360,000
  - Plus brokerage

Example: Sarasota

- Site Location
  - Sarasota, Florida along I-75
- Size
  - 84 acres
- Improvements
  - 284,000 ft^2 industrial building
- Historic Use
  - Manufacturing

Example: Sarasota

- Redevelopment Plan:
  - Renovate existing building for office and light industrial use
  - Frontage to be restaurants, hotel and highway oriented retail
  - Back acreage to be big box retail or distribution

Example: Sarasota

- Environmental Issues:
  - Active RCRA, HSWA permits and consent order
  - Groundwater & soil contamination on and offsite
  - 45 acre TCE plume
  - Removing Stigma

Example: Sarasota

- Acquisition Deal:
  - Acquire land and building for $10 million
  - $3 million remediation
  - Seller provided with insurance-backed indemnification
  - Seller achieved appraised value – remediation costs

Example: Sarasota

- Exit Strategy:
  - Improve groundwater treatment system to reduce cleanup time to under five years
  - Sell retail and industrial parcels when clean
  - Lease existing building
  - Refinance or sell when fully occupied

Category	Item		Amount	
Purchase Price (Appraised value - remediation co			$10,200,000	
Insurance, Attorneys			$200,000	
Total Acquisition Cost				$10,400,000
Hard Costs				
	Remediation		$3,000,000	
	Rehabilation of Existing Building			
		270,000 SF @ $15 PSF	$4,050,000	
	Sudivision Roads and Utilities		$2,200,000	
Soft Costs				
	Architects, Engineers, Land Use Attorney		$937,500	
	Real Estate Brokers		$300,000	
Carrying Costs				
	8 % of Acquisition Cost for two years		$1,664,000	
	10 % of all other costs, average one year		$1,048,750	
Total Development Costs				$13,200,250
Total Project Costs				$23,600,250
Project Sale Price Upon Completion				
Sale price of existing building				
	Income	270,000 SF @ $18 PSF	$4,860,000	
	Expenses		$2,860,000	
	Net Operating Income		$2,000,000	
	Capitalization Rate		8.5%	
	Sale Price		$23,529,412	
Land Sales		50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				$36,029,412
Net Profit (Total Sale Price of Project - Total Project Costs)				$12,429,162
Cash on Cash return				52.67%
Simple annual return over two years				26.33%

Example: Sarasota

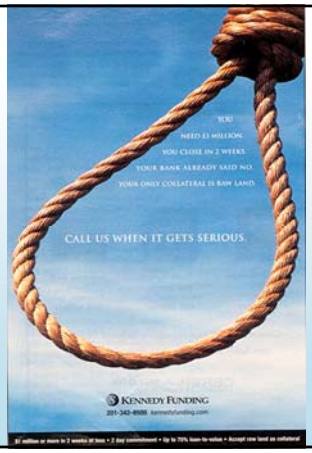
- Pro forma

Financing Phases

- Land Acquisition
  - Special terms for contaminated sites
  - Purchase money mortgages/joint venture
- Construction
  - Including remediation
- Permanent Sources of Capital

Sources of Financing

- Conventional
  - insurance companies
  - pension funds
- Unconventional financing
  - hedge funds
  - mezzanine financing
- Private sector view of government incentives
  - CMBS
  - Commercial banks
  - equity financing
  - and the high risk lenders



What will the project be worth?

- Real Estate Appraisal Approaches
  - Income basis
  - Comparables
  - Replacement Value

Pro Forma Analysis

- How much
- When
- The time value of money
- Scenarios analysis / Sensitivity analysis
- Yield
- Internal rate of return

Category	Item		Amount	
Purchase Price (Appraised value - remediation cost)			$10,200,000	
Insurance, Attorneys			$200,000	
Total Acquisition Cost				$10,400,000
Hard Costs				
	Remediation		$5,000,000	<-- Two years & 67%more,
	Rehabilation of Existing Building			
		270,000 SF @ $15 PSF	$4,050,000	
	Sudivision Roads and Utilities		$2,200,000	
Soft Costs				
	Architects, Engineers, Land Use Attorneys		$937,500	
	Real Estate Brokers		$300,000	
Carrying Costs				
	8 % of Acquisition Cost for four years		$3,328,000	<-- Four years instead of two
	10 % of all other costs, average two years		$2,497,500	<-- Two years instead of one.
Total Development Costs				$18,313,000
Total Project Costs				$28,713,000
Project Sale Price Upon Completion				
Sale price of existing building				
	Income			
		270,000 SF @ $18 PSF	$4,860,000	
	Expenses		$2,860,000	
	Net Operating Income		$2,000,000	
	Capitalization Rate		8.5%	
	Sale Price		$23,529,412	
Land Sales		50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				$36,029,412
Net Profit (Total Sale Price of Project - Total Project Costs)				$7,316,412
Cash on Cash return				25.48%
Simple annual return over two years				12.74%

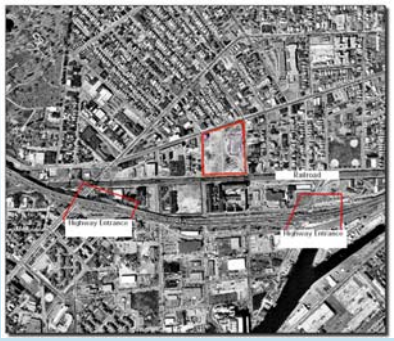
Example: Sarasota

- Impact of Environmental Cost Increases and Delay
- The remediation costs $2,000,000 more and is estimated to take 2 years longer.

Example: Sarasota

- What if the remediation takes longer
- What if the market softens
  - Rental rate drops to $15 PSF from $18 PSF.
  - The capitalization rate on sale rises to 9.5% from 8.5%.

Category	Item		Amount	
Purchase Price (Appraised value - remediation cost)			$10,200,000	
Insurance, Attorneys			$200,000	
Total Acquisition Cost				$10,400,000
Hard Costs				
	Remediation		$5,000,000	<-- 2 yrs & 67%more
	Rehabilation of Existing Building			
		270,000 SF @ $15 PSF	$4,050,000	
	Sudivision Roads and Utilities		$2,200,000	
Soft Costs				
	Architects, Engineers, Land Use Attorneys		$837,500	
	Real Estate Brokers		$300,000	
Carrying Costs				
	8 % of Acquisition Cost for four years		$3,328,000	<-- 4 yrs instead of 2.
	10 % of all other costs, average two years		$2,497,500	<-- 2 yrs instead of 1.
Total Development Costs				$18,313,000
Total Project Costs				$28,713,000
Project Sale Price Upon Completion				
Sale price of existing building				
	Income	270,000 SF @ $15 PSF	$4,050,000	<-- Rents drop $3/sf
	Expenses		$2,860,000	
	Net Operating Income		$1,190,000	
	Capitalization Rate		9.5%	<-- Cap rate rises 1%.
	Sale Price		$12,526,316	
Land Sales		50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				$25,026,316
Net Profit (Total Sale Price of Project - Total Project Costs)				-$3,686,684
Cash on Cash return				-12.84%
Simple annual return over two years				-6.42%



Urban Infill: Manufacturing

Urban Infill: Manufacturing

- Description: 2 adjacent parcels of vacant land
- Acreage: 8.2± acres total; Parcel A: 3.75 acres; Parcel B: 4.4 acres
- Site Features: Parcels separated by street
- Improvements: 14 Buildings comprising former Electric Industries Factory complex were razed by the city.
- Ownership: local Economic Development Authority
- Current Value: $1,025,000
- Land Value: $125,000 per acre
- Acquisition Cost: $750,000
- Zoning: M-2 Industrial
- Location: Urban Area near major east coast highway
- Demand: relatively high demand

Directions:	Fill in the cells bordered in red					
Property Costs						
	Property Acquisition Costs				0	
	Remediation Costs				0	
	Total Property Costs					0
Development Costs						
	Hard Costs - Construction or renovation cost by usage					
	Sq feet	0	$ / sq ft / use	0	0	
	Sq feet	0	$ / sq ft / use	0	0	
	Sq feet	0	$ / sq ft / use	0	0	
					0	
	Soft Costs (architects, brokers, etc)					
	20%	of hard costs			0	
	Total Development Costs					0
Carry Costs						
	Land Cost	2 years	10%		0	
	Development Costs 1 yr		7.5%		0	
	Total Carry Costs					0
	Total Project Development Costs					0
Net Operating Income						
	Sq feet	0	net lease $ / sq ft	0	0	
	Sq feet	0	net lease $ / sq ft	0	0	
	Sq feet	0	net lease $ / sq ft	0	0	
	Ongoing Environmental Costs				0	
	Net Operating Income				0	
Project Valuation and Capitalization						
		NOI/Cap Rate = Project Sale Value				0
		Cap Rate	**10.0%**			
		Profit				0

Lunch

Module III

The Complex World of Contaminated Properties

The Real Estate Development Process

The Process

- 2: Refinement
  - Redevelopment analysis
  - Time analysis
  - Market Analysis
  - Government Incentives
  - Exit Strategy

Re- Positioning the Site

- Role of Upfront Planning
- Overcoming Stigma
- Financial Incentives

Use Community Planning

– Design Workshops

–Demonstrate compatibility between cleanup and redevelopment

Visioning

Brownfield Redevelopment and Green Building

- Green Opportunities
- Political Influence
- Cost limitations/effects
- Marketing Opportunities
  - Benefits of Enviro Public Relations

Abandoned Borne Chemical Site

South Front Street
Redevelopment Concept

Overcoming Stigma through Repostioning

New Urbanism/ Infill Development

- Mixed Income Housing
- Mixed Use
- Town Center

Leveraging Public Finance

- Government Incentives
  - Federal Subsidies and Supports
  - Local Subsidies and Supports
  - Tax Increment Financing
  - The New Brownfields Law
- Can they drive redevelopment?

State Loans & Grants

- DNR
  - Brownfields Site Assessment Grants
  - Greenspace & Public Facility Grants
  - Ready for Reuse (RLF) loans & grants
  - Land Recycling Loans
- Commerce Brownfields Grants
- DOA Coastal Management Grants

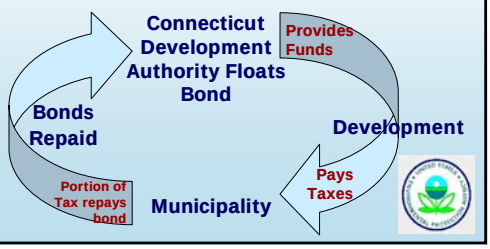
The Process

- Government Incentives
  - The New Brownfields Law
    - Significant Sources of Funding for Marginal Properties
      - Assessment
      - Cleanup Grants
      - Revolving Loan Fund

The Process

Due Diligence

- Government Incentives
  - Tax Increment Financing



Brownfields Site: 1558 Barnum Avenue

- $1 million plus in tax arrears
- 5 acres of prime industrial land
- Forced bankruptcy for RCRA violations
- Illegal dump site and junk yard

Brownfields Site: 1558 Barnum Avenue

Our First View

Brownfields Site: 1558 Barnum Avenue

City Works with Developer

- Combines Revolving Loan with CBRA to fund $800,000 cleanup
- Developer produces 75 jobs
- 85,000 sq. ft. space

Industrial Flex Complex

Fatal Flaw Analysis

- Cleanup approach not quantified
- Extraordinary construction costs
- Major regional employer leaves
- NIMBY
- Stigma
- Developer identifies “early” and moves on

Structuring the Deal

- 3: Due Diligence
  - Buyer/ Seller Agreements
    - Informal
      - Term Sheet
    - Formal
      - Option
      - Purchase and Sale Agreement (Deposit)
      - Letters of Confidentiality

The Process
Contract Negotiation

- Addressing Liability Protection
  - Contractual/Private Mechanisms
  - Regulatory assurances
  - Environmental insurance
  - Institutional controls

The Process
Contract Negotiation

- Addressing Liability Protection: Contractual/Private Mechanisms
  - Preliminary & Pre-closing Agreements
  - Representations & Warranties
  - Indemnifications
  - Environmental Covenants
  - Allocating Financial Risk

RR Program

- Off-Site Exemption
- Lender Liability Exemption
- LGU Liability Exemption
- Liability Clarification Letters
- Lease Liability Clarification Letters
- LGU Tax Cancellation – s. 75.105
- LGU Tax Foreclosure – s. 75.106

RR Program - 2

- Voluntary Party Liability Exemption (VPLE)
- NR 700 series Remedial Actions
- WI Brownfields Environmental Insurance Program (WBIP)
- Development at Historic Fill Sites & Landfills
- Negotiated Agreements

The Process
Contract Negotiation

- Environmental Insurance
  - policies can be used stand alone or supplement an indemnity agreement
    - Third-party bodily injury and property damage
    - Remedial action costs
    - Legal defense expense
    - Business interruption and costs of project delay
    - Remedial action cost cap or stop loss
    - Collateral value or secured creditor loss
    - Environmental condition(s) at third party disposal sites resulting from wastes generated at property

Single Sites vs. Portfolios/Clusters

- Gas stations $700,000 clean
  - Acquisition $400,000
  - Avg. Remediation $ 75,000
- Profit $ 225,000

- Risk 1/20 cost $300,000 to remediate

Portfolios / Clusters

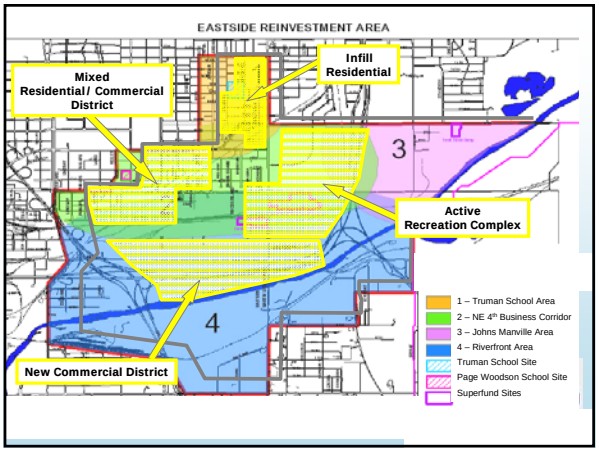
- 100 Gas Stations = $70,000,000 clean
  - Acquire @ $400,000 ea = $40,000,000
  - Remediation @ $100,000 = $10,000,000
    - Allows for 5 @ $300k
  - Other costs = $ 5,000,000
- Profit = $15,000,000

- Gain $150,000/site with limited risk

Reuse Options For Small Sites

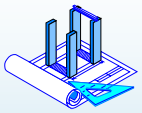
Clusters

- Tax liens/mortgages
- One Cleanup clusters
- Brownfield Development Areas


EASTSIDE REINVESTMENT AREA
Mixed Residential/ Commercial District
Infill Residential
Active Recreation Complex
New Commercial District
3
4
1 – Truman School Area
2 – NE 4th Business Corridor
3 – Johns Manville Area
4 – Riverfront Area
Truman School Site
Page Woodson School Site
Superfund Sites

The Process

- 5. Formal Commitment
  - Site Control
  - Regulatory Approvals
  - Agreements in Place
- 6. Construction
  - Is the redevelopment the remediation?
  - Construction Documents & Qualifying Bidders
- 7. Completion/ Marketing
  - Completion and Formal Opening
- 8. Property, Asset and Portfolio Management
  - Sustainability
  - Institutional Controls & Recontamination



Marketing the Property

- Role of Brokers
  - Dealmakers
  - Need to be paid
  - Market Driven

Must look like regular real estate

Marketing the Property

- Finding an end-user begins with idea, continues throughout
- Sign out front
- Events
- Conceptual Redevelopment Plan
- Brokers
- Internet
- Fact sheets

Cashing Out

Acquisition:	Purchase Price	$ 9,000,000	
	Insur., Attorneys, etc.	200,000	$ 9,200,000
Hard Costs:	Remediation	300,000	
	Rehab of Existing Bldg (270,000sf x's $15/sf)	$ 4,050,000	
	Roads & Utilities	200,000	4,550,000
Soft Costs:	Architects, Land Use	650,000	
	Real Estate Brokers	100,000	750,000
Carrying Costs:	8% of acquisition costs(2yrs)	1,472,000	
	10% of all other costs (1yr)	530,000	2,002,000
Total Project Costs:			$16,502,000

Cashing Out

Value:	Gross Income (270,000sf x $18/sf)	$4,860,000
	Operating Expenses ($10.59sf)	(2,860,000)
	Net Operating Income (NOI)	$2,000,000

Sale Price = NOI/Cap. Rate = $2 MM/8.5% = $23.5 MM

Project Cost $16.5 MM

Potential Profit on Sale: $7 MM

Should the Developer Sell? Is There Another Option?

Cashing Out

NOI/Debt Coverage = Cash Available for Debt Service

2.0 MM/1.2 = 1.65 MM

Interest rate of 6.0%, 25 year amortization period

Maximum achievable mortgage = $21.3 MM

Total Cost:	$16.5 MM
Total Mortgage	$21.3 MM
Equity in Property	$0
Cash Taken Out of Deal	$5.2 MM

Cashing Out Options

- Take cash, keep site, buy another
- Sell site to end user
- Sell site to long-term holder:
  - Private owner
  - REIT

Module IV

Real Cases: What can you do?

Case Study #1

Small City (pop. 8500)
Northern Wisconsin

Past Uses

- Late 1800's – Blacksmith Shop
- 1920-1990 – Implement Dealership
- 1990-1992 – Repair/Maintenance Shop
- 1992- 2002 – Implement Dealership
- 2003-2006 – Vacant
- 1995 Contamination found on site

Current Situation

- 3 Abandoned Properties on Main St. (1.1 acres total)
- Tax Delinquent
- City wants Commercial Redevelopment
- Known Contamination on Site (1995)
- Current Buildings Blighted
- Recent SAG Grant to City
- No Interested Developers

What can the City Do?

- **Challenges?**
- **Actions?**

Case Study #2

Small Village (pop. 1100)
West Central Wisconsin

Past Uses

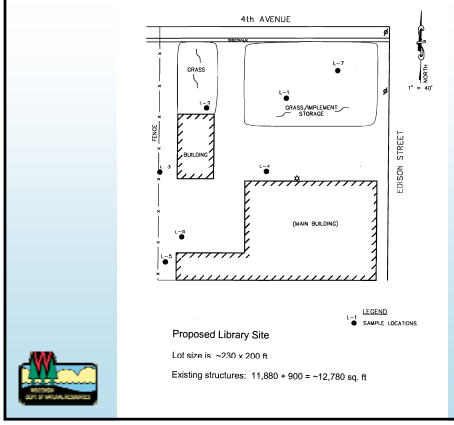
- Former Feed Mill
- Former Gas Station (burned 1970)
- Currently used for cold storage
- Suspected contamination and hazards on site

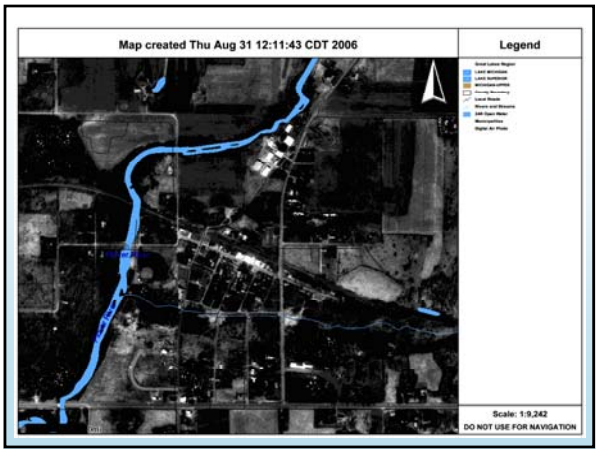
Current Situation

- Under Utilized Property on Main St. (0.68 acre)
- Current Buildings Blighted and Hazardous
- Suspected Contamination on Site
- Private Owner willing to sell, won't allow access
- City wants Redevelopment or Park
- No Interested Developers – Liability Concerns

What can the Village Do?

- **Challenges?**
- **Actions?**





Contact Us

To Be an Advocate for the Redevelopment of Your Site

- Use the Press
- Involve Stakeholders
- Identify an Independent Advocate
- Obtain Support from Local Government

To Be an Advocate for the Redevelopment of Your Site

- Solidify Cleanup Schedule
- Break up Big Sites into Pieces
- Explore Options to Make Sites More Attractive and Competitive

Stakeholder Involvement

- The stakeholder process
  - Why
    - To eliminate stigma
    - To assure acceptance of the environmental plan
    - To help get the deal done
    - To attract funding

Outreach

- Outreach:
  - Contaminated properties require more

Working with Local Development Organizations

- EDA/ CDC
- City Economic Development Department
- Ad hoc Committee

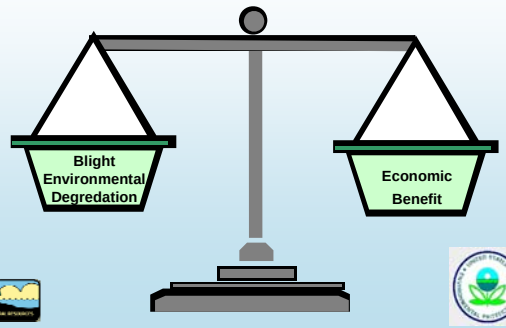
Development Organizations Can:

- Market Site
- Put out RFPs
- Own Site
- Receive Grants
- Facilitate Redevelopment

What Else You Can Do

- Invite stakeholders to meetings
- Develop processes that integrate cleanup and redevelopment
- Reuse Assessment
- Provide reuse TAGs
- Hold Charrette
- SRI Pilot, RCRA Reuse Pilot, Brownfields Pilot

Economic Benefits and Environmental Benefits



Appendix A-1

Table 1 : Outline for a Reuse Assessment
OSWER 9355.7-06P

Stakeholders
- Identify stakeholders and their connection to the site, e.g., site owner, current user, developer, PRP, state and local or tribal government, community member, Community Advisory Group, (CAG), etc.
- Determine which stakeholders are responsible for local land use determinations
- Document the stakeholders who participate in the Reuse Assessment

Site Description
- Physical features: size, shape, topography, special features
- Existing buildings and other site improvements
- Site location in relation to residential, commercial, industrial, agricultural and recreational areas
- Current and past uses
- Neighboring activities and land uses
- Relevant public infrastructure: roads, utilities, transit, parks, etc.

Environmental Considerations
- Contaminants and their location(s), technology constraints, to the extent this information is known
- Potential restrictions resulting from the environmental contamination
- Areas that are "clean" (i.e., where risks are acceptable, consistent with their planned use) and potentially available for immediate reuse
- Ground water use classification/determination
- Other site characteristics (e.g., wetlands, surface waters, upland habitat, forested habitat, flood plains)

Site Ownership
- Person or entity that holds title to the site; who controls access to the site
- Any property liens, bankruptcy considerations
- Site owner(s) preferences and plans
- Any plans for the sale of the property

Land Use Considerations and Environmental Regulations
- Zoning
- Existing area master plans
- Federal, state, tribe or local environmental regulations (e.g., wetlands, flood plain, etc.) impacting reuse
- Institutional controls (e.g., easements, covenants) already in place
- Historical and cultural resources

Community Input
- Future reuses that community members would support
- Future reuses that community members would oppose
- Cultural factors that may create barriers or assets to any type of future reuse (historic buildings, Native American sacred lands)
- Environmental justice issues

Public Initiatives
- Infrastructure plans that may influence the site uses
- Potential municipal/public uses, including park and recreational facility, transit facility, public building
- Publicly initiated private sector redevelopment project (e.g., government-organized industrial park)
- Funds available/committed for the redevelopment of the site

Appendix A-2

Real Estate Finance Basics: Introduction to Leverage

Project Costs:

Acquisition, Soft Costs, Hard Costs, Remediation, Carry Costs

Total Project Costs of $100,000

Net Operating Income (NOI)

Gross Income	$14,000
Operating Expenses	($4,000)
Net Operating Income	$10,000

Cash on Cash Operating Return

NOI/Project Costs $10,000/$100,000 10%

Leverage: 20% Down (Equity of $20,000), 80% Mortgage ($80,000) at 6%

Gross Income	$14,000
Expenses	($4,000)
Debt Service (Carry)	$4,800
Net Cash Flow	$5,200

Leveraged Return

Net Cash Flow/Equity

$5,200/$20,000 26%

Project Value and Capitalization

NOI/Cap Rate = Project Sale Value

$10,000/.10 $100,000

Appendix A-3

Sarasota: Base Case

Category	Item		Amount	
	Purchase Price (Appraised value - remediation cost)		$10,200,000	
	Insurance, Attorneys		$200,000	
Total Acquisition Cost				**$10,400,000**
	Hard Costs			
		Remediation	$3,000,000	
		Rehabilitation of Existing Building		
		270,000 SF @ $15 PSF	$4,050,000	
		Subdivision Roads and Utilities	$2,200,000	
	Soft Costs			
		Architects, Engineers, Land Use Attorneys	$937,500	
		Real Estate Brokers	$300,000	
	Carrying Costs			
		8 % of Acquisition Cost for two years	$1,664,000	
		10 % of all other costs, average one year	$1,048,750	
Total Development Costs				**$13,200,250**
Total Project Costs				**$23,600,250**
Project Sale Price Upon Completion				
	Sale price of existing building			
		Income 270,000 SF @ $18 PSF	$4,860,000	
		Expenses	$2,860,000	
		Net Operating Income	$2,000,000	
		Capitalization Rate	8.5%	
		Sale Price	$23,529,412	
	Land Sales	50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				**$36,029,412**
Net Profit (Total Sale Price of Project - Total Project Costs)				**$12,429,162**
Cash on Cash return				**52.67%**
Simple annual return over two years				**26.33%**

Sarasota: Pro Forma Impact of Environmental Increases and Delay

Category	Item		Amount	
Purchase Price (Appraised value - remediation cost)			$10,200,000	
Insurance, Attorneys			$200,000	
Total Acquisition Cost				**$10,400,000**
Hard Costs				
	Remediation		$5,000,000	<-- 2 years & 67% more
	Rehabilitation of Existing Building			
		270,000 SF @ $15 PSF	$4,050,000	
	Subdivision Roads and Utilities		$2,200,000	
Soft Costs				
	Architects, Engineers, Land Use Attorneys		$937,500	
	Real Estate Brokers		$300,000	
Carrying Costs				
	8 % of Acquisition Cost for four years		$3,328,000	<- 4 yrs instead of 2.
	10 % of all other costs, average two years		$2,497,500	<- 2 yrs instead of 1.
Total Development Costs				**$18,313,000**
Total Project Costs				**$28,713,000**
Project Sale Price Upon Completion				
Sale price of existing building				
	Income	270,000 SF @ $18 PSF	$4,860,000	
	Expenses		$2,860,000	
	Net Operating Income		$2,000,000	
	Capitalization Rate		8.5%	
	Sale Price		$23,529,412	
Land Sales		50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				**$36,029,412**
Net Profit (Total Sale Price of Project - Total Project Costs)				**$7,316,412**
Cash on Cash return				**25.48%**
Simple annual return over two years				**12.74%**

Changes from Base Case:
The remediation costs $2,000,000 more and is estimated to take 2 years longer.

Appendix A-5

Sarasota: Pro Forma when the Market Softens

Category	Item		Amount	
Purchase Price (Appraised value - remediation cost)			$10,200,000	
Insurance, Attorneys			$200,000	
Total Acquisition Cost				**$10,400,000**
Hard Costs				
	Remediation		$5,000,000	<-- 2 yrs & 67% more
	Rehabilitation of Existing Building			
		270,000 SF @ $15 PSF	$4,050,000	
	Subdivision Roads and Utilities		$2,200,000	
Soft Costs				
	Architects, Engineers, Land Use Attorneys		$937,500	
	Real Estate Brokers		$300,000	
Carrying Costs				
	8 % of Acquisition Cost for four years		$3,328,000	<-- 4 yrs instead of 2.
	10 % of all other costs, average two years		$2,497,500	<-- 2 yrs instead of 1.
Total Development Costs				**$18,313,000**
Total Project Costs				**$28,713,000**
Project Sale Price Upon Completion				
Sale price of existing building				
	Income	270,000 SF @ $15 PSF	$4,050,000	<-- Rents drop $3/SF
	Expenses		$2,860,000	
	Net Operating Income		$1,190,000	
	Capitalization Rate		9.5%	<-- Cap rate rises 1%.
	Sale Price		$12,526,316	
Land Sales		50 acres @ $250,000/acre	$12,500,000	
Total Sale Price of Project				**$25,026,316**
Net Profit (Total Sale Price of Project - Total Project Costs)				**-$3,686,684**
Cash on Cash return				**-12.84%**
Simple annual return over two years				**-6.42%**

Changes from Base Case:

The remediation costs $2,000,000 more and is estimated to take 2 years longer.
Rental rate drops to $15 PSF from $18 PSF.
The capitalization rate on sale rises to 9.5% from 8.5%.

Appendix A-6

Cashing Out

Acquisition:	Purchase Price	$ 9,000,000	
	Insurance, Attorneys, etc.	200,000	$ 9,200,000
Hard Costs:	Remediation	300,000	
	Rehabilitation of Existing Bldg (270,000sf x's $15/sf)	4,050,000	
	Roads & Utilities	200,000	4,550,000
Soft Costs:	Architects, Land Use	650,000	
	Real Estate Brokers	100,000	750,000
Carrying Costs:	8% of Acquisition Costs (2 yrs) (8% x's $9,200,000 x's 2)	1,472,000	
	10% of All Other Costs (average 1 yr) (10% x's $5,300,000 x's 1)	530,000	2,002,000
Total Project Costs:			**$16,502,000**

Value:	Gross Income (270,000sf x's $18/sf)	$4,860,000	
	Operating Expenses ($10.60sf)	(2,860,000)	
	Net Operating Income (NOI)	$2,000,000	
	Cap Rate 8.5%	$2,000,000 / 8.5% =	Value of $ 23,529,412
Potential Profit on Sale:			**$ 7,027,412**

Bank's Perspective for Mortgaging:

Gross Income	$4,860,000
Less: 10% Vacancy Allowance	(486,000)
Adjusted Gross Income	4,374,000
Less: Operating Expenses	(2,860,000)
Adjusted New Operating Income	$1,514,000

Bank's debt coverage ratio in this case 1.2 Accordingly, $\frac{\$1,514,000}{1.2}$ = $1,261,666

Available for debt service then is $1,261,666.
Assuming an interest rate of 8.5%, the maximum achievable mortgage is $14,843,129.

Cash still in deal: $16,502,000 - $14,843,129 or $1,658,871

Appendix A-7

Addressing Liability Protection

Government Assurances: providing assurances that allow private parties to build a deal around them

- Comfort letters
- Involvement in the Deal
- PPAs
- Windfall Lien

Allocating Risk under Superfund

- Consent Decrees
- Comfort Letters
- Lender Liability Amendment
- Prospective Purchaser Agreements
- Contaminated Aquifer Policy

Representations and Warranties: Disclosure and consideration of:

- existing permits, registrations, approvals, land use restrictions, licenses
- compliance with laws, rules and regulations
- pending, threatened, anticipated claims or actions
- known chemicals of concern and releases
- existing environmental studies
- underground storage tanks or pipelines

Indemnifications

- Seller could hold the buyer harmless for any conditions related to seller's use of property
- Buyer could hold the seller harmless for any conditions related to buyer's use of property
- Only as good as the financial worth of the individual granting the indemnity
- Length of the indemnification needs to be determined

Environmental Covenants

- Creates a case-specific continuing obligation
- Seller could agree to continue to maintain environmental controls on the property
- Buyer could agree to maintain environmental controls and be reimbursed by seller

Allocating Financial Risk

- The liability, as well as the financial consequences of the liability may be transferred to another party
- Regulatory requirements my complicate a risk control transfer

Environmental Insurance: Policies can be used stand alone or supplement an indemnity agreement

- Third-party bodily injury and property damage
- Remedial action costs
- Legal defense expense
- Business interruption and costs of project delay
- Remedial action cost cap or stop loss
- Collateral value or secured creditor loss
- Environmental condition(s) at third party disposal sites resulting from wastes generated at property

Types of insurance

- Commercial insurance policies
- Surety and bonds
- Environmental Risk Management Programs
- Finite risk programs
- Pooling arrangements including risk retention groups
- Risk purchasing groups
- Captive reinsurance programs
- Remedial action cost cap

Appendix B: Web Sites for Key Liability Risk Guidance

1. Due Diligence Criteria that trigger most federal liability protections:

All Appropriate Inquiry Proposed Regulations

The whole nine yards: 70 Fed Reg 66070, November 1, 2005
www.epa.gov/brownfields
website contains federal rule, summary and comparison to Interim Standard ASTME 1527-00

2. Qualifications for Environmental Professionals who conduct all appropriate inquiries for federal protections:

www.epa.gov/brownfields
website also contains summary and comparison with prior ASTM qualifications

3. Guidance on requirements to qualify for federal protections under CERCLA Amendments of 2002 (Brownfields Law)

Interim Guidance Regarding Criteria Landowners Must Meet in Order to Quality for Bona Fide Prospective Purchaser, Contiguous Property Owner, or Innocent Landowner Limitations on CERCLA Liability (Common Elements) - (3/6/03)
Provides general guidance on the common elements of the landowner liability protections.

http://www.epa.gov/compliance/resources/policies/cleanup/superfund/common-elem-guide.pdf

Common Elements Guidance Reference Sheet - (3/6/03)
Reference sheet highlights the main points made in EPA's March 2003 "Interim Guidance Regarding Criteria Landowners Must Meet in Order to Quality for the Bona Fide Prospective Purchaser, Contiguous Property Owner, or Innocent Landowner Limitations on CERCLA Liability"
http://www.epa.gov/compliance/resources/policies/cleanup/superfund/common-elem-ref.pdf

4. General Guidance on Brownfields Liability Risks

Brownfields Handbook: How to Manage Federal Environmental Liability Risks - (11/1/02)
Brownfields Handbook provides a compilation of tools and a discussion of how to use them in evaluating the benefits of reusing a brownfields property
http://www.epa.gov/compliance/resources/publications/cleanup/brownfields/handbook/bfhbkcmp.pdf

5. Institutional Controls as a means of controlling environmental risks:

Institutional Controls: A Citizen's Guide to Understanding Institutional Controls at Superfund, Brownfields, Federal Facilities, Underground Storage Tank, and Resource Conservation and Recovery Act Cleanups - (2/1/05)
Fact Sheet provides community members with general information about the role of institutional controls (ICs) in Superfund, Brownfields, Federal Facilities, Underground Storage Tanks (UST) and Resource Conservation and Recovery Act (RCRA) cleanups occurring in their neighborhoods.
http://www.epa.gov/superfund/action/ic/guide/citguide.pdf

(EPA maintains a website on current issues concerning institutional controls at ://www.epa.gov/superfund/action/ic/)

Land Use and Institutional Controls 12-20-2005
"Provides links to information about land use and institutional controls."
URL:http://www.epa.gov/brownfields/tools/tti_lucs.htm

6. Instruments Used to Control Liability Risks:

A. Comfort Letters:

EPA - Policy on the Issuance of Comfort/Status Letters05-08-2006
WASHINGTON. D.C. 20460 .OFFICE OF ENFORCEMENT AND COMPLIANCE ASSURANCE ;SUBJECT: FROM: Steven A.Herman, Assistant Administrator, Office of Enforcement and Compliance Assurance:
Policy on the Issuance of Comfort/Status Letters - TO: Regional Counsels, Region1-10,BrownfieldsCoordinators,.
http://www.epa.gov/Compliance/resources/policies/cleanup/superfund/com...

B. Prospective Purchaser Agreements;

Guidance on Agreements with Prospective Purchasers of Contaminated Property (5/24/95) and attachment: Model Prospective Purchaser Agreement (Revised 10/1/99)

Bona Fide Prospective Purchasers and the New Amendments to CERCLA - (5/31/02)
Provides discussion describing when, primarily because of significant public health, EPA will consider providing a prospective purchaser with a covenant not to sue now that the Brownfields Amendments are law
http://epa.gov/compliance/resources/policies/cleanup/superfund/bonf-pp-cercla-mem.pdf (PDF 129

C. Covenants Not to Sue

Bona Fide Prospective Purchasers and the New Amendments to CERCLA - (5/31/02)
Provides discussion describing when, primarily because of significant public health, EPA will consider providing a prospective purchaser with a covenant not to sue now that the Brownfield's Amendments are law
http://epa.gov/compliance/resources/policies/cleanup/superfund/bonf-pp-cercla-mem.pdf

D. Ready for Reuse Determinations;

"Guidance for Preparing Superfund Ready for Reuse Determinations" (PDF, 987 KB, 16 pp., about PDF) provides information needed to make and document RfR Determinations and the nature of the evaluations EPA will conduct in preparing RfR Determinations. A fact sheet on the RfR guidance is also available from the Superfund program web site.

7. Insuring Federal Liability Protection through compliance with State Voluntary Cleanup Program:

Memoranda of Agreement (MOAs) on State Voluntary Cleanup Programs (VCPs)12-20-2005
"List of Memoranda of Agreement on State Voluntary Cleanup Programs"
URL:http://www.epa.gov/brownfields/html-doc/statemoa.htm (HTML)

Map of States with Memoranda of Agreement on State Voluntary Cleanup Programs12-20-2005
"This is a map of states with memoranda of agreement on state voluntary cleanup programs."

URL:http://www.epa.gov/brownfields/html-doc/usmoamap.htm (HTML)

Memorandum Re: Interim Approaches for Regional Relations with State Voluntary Cleanup Programs12-20-2005

"This memorandum sets out the baseline criteria which EPA will employ to evaluate the adequacy of State voluntary cleanup programs."

URL:http://www.epa.gov/brownfields/html-doc/vcp.htm (HTML)

8. Windfall Liens

Interim Enforcement Discretion Policy Concerning Windfall Liens Under Section 107(r) of CERCLA - (7/16/03)

This memorandum discusses EPA and DOJ interim policy implementation of the new CERCLA 107(r) windfall lien provision contained in the 2002 Brownfields Amendments.

http://www.epa.gov/compliance/resources/policies/cleanup/superfund/interim-windfall-lien.pdf (PDF 386 kb)

Appendix C-1: Electric Industries-Back of the Envelope Pro Forma

Property Costs						
Property Acquisition Costs					0	
Remediation Costs					0	
Total Property Costs						**0**
Development Costs						
Hard Costs - Construction or renovation cost by usage						
Sq feet	0	$ / sq ft / use	0	0		
Sq feet	0	$ / sq ft / use	0	0		
Sq feet	0	$ / sq ft / use	0	0		
				0		
Soft Costs (architects, brokers, etc)						
20%	of hard costs			**0**		
Total Development Costs						**0**
Carry Costs						
Land Cost	2 years	10%		0		
Development Costs	1 year	7.5%		0		
Total Carry Costs						**0**
Total Project Development Costs						**0**
Net Operating Income						
Sq feet	0	net lease $ / sq ft	0	0		
Sq feet	0	net lease $ / sq ft	0	0		
Sq feet	0	net lease $ / sq ft	0	0		
Ongoing Environmental Costs				0		
Net Operating Income				**0**		
Project Valuation and Capitalization						
NOI/Cap Rate = Project Sale Value						**0**
Cap Rate		**10.0%**				
Profit						**0**

Appendix C-2: Electric Industries – Basic Financial and Market Information

Property Size

Parcel A:	3.75 + acres
Parcel B:	4.4 + acres
Total site:	8.2+ acres

Property Costs

Property Acquisition Costs: $750,000
Remediation Costs:

Passive Vent System for Parcel A Building	$40,000	
Relocation of AS/SVE system		$100,000
Parcel A - cleanup of electro-plating area	$50,000	
Parcel A - cleanup of waste storage area		$100,000
Parcel A – cleanup of surface spill area		$25,000
Total	$315,000	

The PRP is willing to pay for a passive vent system on new buildings and place $250,000 into a monitoring fund if the City and new owner will take full responsibility/waive PRP's potential future liability related to the cleanup.

What can be built?

Parcel A could support a structure with approximately 65,000 SF ground coverage or 130,000 SF of industrial space, and an additional 48,000 SF of on-site impervious surface (i.e. parking, accessory buildings). Parcel B could support a structure with approximately 78,000 SF of ground coverage or 156,000 SF of similar space, and an additional 58,000 SF of impervious surface.

Development Costs

Site Preparation:		
Access roads/driveways		$ 350/ lf
Parking lots	$ 3/sf	
Storm water Management	$75,000	
Water service upgrades		$60,000
Sewer service upgrades		$90,000
Ancillary Site Work:		
Potential Traffic Improvements (i.e. traffic control devices; potential upgrade/reopen Maple Street)	$90,000; $60,000	
Building Construction		
Warehouse Distribution		$ 35/ sf
Industrial/light Manufacturing		$ 40/ sf
Retail/outlet	$ 60/ sf	
Office	$ 100/ sf	
Soft Costs	20% of construction	

Potential NOI from Different Uses

Land in the country has predominantly been developed in a build-to-suit market. Currently, vacancy rates for industrial space are approximately 9.5%.

Net Lease Rates:	$4.50/s.f annual warehouse/distribution space
	$6.00/s.f. annual manufacturing space
	$9.50/s.f. annual retail space
	$7.50/s.f. annual office space

Comparable industrial land is in the area is currently valued at $125,000 per acre.

Appendix D

Glossary of Terms

Cap Rate Short for capitalization rate. It is basically the percentage of the investment that the investor will receive back each year from the net income of the property. In this course, it is the rate of return used to derive the value of the income stream. The formula is:

$$\text{Value} = \frac{\text{Annual Income}}{\text{Capitalization Rate}}.$$

Capitalized Value The value of the income stream derived from dividing the net income by an appropriate capitalization rate.

Carry Costs Basically the cost of financing and is largely determined by the rate of interest. Occasionally, some developers will include the cost of financing or "carry costs" in the soft cost category.

Free & Clear Income The net operating income before deducting any debt service for financing.

Gross Income The gross rents received from tenants.

Hard Costs In development economics, basically the cost of labor and materials to construct a property.

Internal Rate of Return (IRR) The true annual rate of earnings on an investment. Taking into account the time value of money, it equates the value of cash returns with the amount of cash invested. The formula for determining the IRR applies compound interest factors. It includes calculations for increased operating costs, lease turnover and changes, plus the anticipated sale of the property at the end of a five or ten year analysis period.

Leverage The use of borrowed funds to either acquire or mortgage a property. In theory, can increase purchasing power and/or the profitability of the investment.

Net Lease A lease whereby in addition to a base rent, the lessee assumes some (and usually all) of the expenses normally paid by the owner. Those expenses usually include operating costs, insurance and real estate taxes.

Net Operating Income Gross income less *operating* expenses but not debt service or depreciation. Also, is often thought synonymous with free and clear income.

Net Operating Income After Debt Service Gross income less operating expenses *and* debt service.

Operating Expenses Those costs associated with operating a property. For example, heat, taxes, payroll, repairs, etc. Operating expenses do not include capital expenditures such as a new roof, new boiler, etc.

Remediation The cost of making a site "clean."

Soft Costs Those development costs that are not part of the actual labor or materials to create the property. For example, professional fees (architects, accountants, attorneys, brokers, etc.) are typical soft costs. Sometimes, developers will also include "Carry Costs" or the cost of financing in this category as well.

Appendix E

Participant Evaluation

Your feedback, comments and suggestions are very valuable to us. Thank you for participating and completing this evaluation.

	Strongly Agree		Neutral (Circle One)		Strongly Disagree
1. I understood the goals of the workshop:	5	4	3	2	1
2. The goals of the workshop were met:	5	4	3	2	1
3. My contribution was valued:	5	4	3	2	1
4. The course topics will be helpful to me in the future:	5	4	3	2	1
5. The small group exercises were helpful in understanding the content:	5	4	3	2	1
	Excellent		**Average**		**Poor**
6. My overall evaluation of the workshop is:	5	4	3	2	1

7. What I liked best or found most helpful were:

8. What I liked least or found least helpful were:

9. My additional suggestions for future workshops (Use other side of page):

Course Date: _____ Your name (optional): _____

EPA

Appendix F: Course Instructors

Michael B. Taylor, President, Vita Nuova LLC

Mr. Taylor is a leading strategist in implementing redevelopment at brownfields, RCRA and Superfund sites. He is an expert in public-private partnerships for redevelopment as well as in developing strategies to get highly-encumbered properties back to the market. He works in some of the toughest areas of the country, including small rural areas, inner city environmental justice neighborhoods and some of the most contaminated sites in the country.

Mr. Taylor chaired the ASTM task group for the National Standard on Sustainable Brownfields Redevelopment. He has trained over 800 state and federal regulators in real estate and redevelopment of contaminated properties and contributed to national brownfields and superfund redevelopment policy. He was a graduate Rockefeller fellow at Yale University, where he studied Environmental Science, Public Policy and Ethics. He graduated Cum Laude in Urban Planning and Economics from Roanoke College. He recently co-taught a course in Land Use and Environmental Decision-making at Columbia School of Law.

Barry Hersh

Mr. Hersh is a member in Vita Nuova, LLC and Associate Director, Newman Real Estate Institute, CUNY. Mr. Hersh has practical experience in the development industry. He is one of the leading Brownfields developers in the country, having managing the acquisition of over $150mm in environmentally-impacted properties from commercial to heavy industrial nationwide. His experience in the development field includes over 25 years in various positions including Development Director for a municipality, Executive Director of a Community Development Corporation, and senior real estate official for a Fortune 100 corporation. He has served as a design leader and organizer of dozens of design workshops and charrettes including waterfront restoration projects, corporate parks,
and housing sites. For the Waterfront Center, Mr. Hersh has led waterfront community design workshops in the United States, Canada, and Bermuda. He has also taught at several universities and for various development organizations including Columbia University, New York State Builders Association, and the University of Toledo.

Mr. Hersh is a leader in the development and planning fields, serving on many boards and in numerous industry leadership capacities. He is currently chair of the Developers Group for the National Brownfields Association; Chair, Finance Committee, The Waterfront Center; Board Member, Partnership for Sustainable Brownfields Redevelopment; and is a member of the Urban Land Institute, NAIOP, and NACORE.

Vita Nuova can be contacted at:

Web: www.vitanuova.net
Phone: (203) 270-3413
Email: info@vitanuova.net